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Back-to-school is a reminder for financial advisors to review clients' educational savings goals

By Rob Burgess
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The end of summer ushers in the beginning of the school year — and an opportunity for financial advisors to review clients' educational savings goals.

Bryan A. Cassick, lead advisor at Warren Street Wealth Advisors in Irvine, California, said clients should consider savings and investment products like 529 plans or custodial accounts to plan for major educational costs.

529 plans provide tax benefits and have significantly expanded their allowed uses since the Secure 2.0 Act, said Rob Walsh, president of Birds Eye Wealth Planning in Neptune, New Jersey.

Noah Damsky, principal at Marina Wealth Advisors in Los Angeles, said if a 529 account is the best next step, advisors should consider taxes and fees and be aware that clients are not required to use the 529 plans offered by their home state.

"Some states, such as Utah, have very highly rated plans and are reasonably priced," he said. "For many, a plan like this might be an obvious choice. For others that live in a state with a tax benefit tied to their program, that state's plan might be the obvious choice for its residents."

Alongside 529 plans, clients should consider using a brokerage account for added flexibility, said Alex Koynoff, owner of ATK Financial Prosperity in Chicago.

"It gives you the option to help pay for college, without the restrictions that the money needs to be used for qualified education expenses. The added flexibility of a brokerage account gives you options depending if you are behind or ahead on your financial goals."

Contributions instead of physical gifts

Understanding 529 plan structure is key. Kashif A. Ahmed, founder and president of American Private Wealth in Bedford, Massachusetts, said a 529 plan listing a child as the beneficiary may count "against" them, possibly impacting their ability to qualify for aid.

"Perhaps set up the plan with the adult as the owner, and the beneficiary first. It is very easy to change beneficiaries on an existing plan," he said. "Remember, anyone can contribute to a 529 plan. Encourage relatives and friends to make contributions to the plan in lieu of Christmas and birthday gifts."

Paula Nangle, president and senior wealth advisor of Marshall Financial in Doylestown, Pennsylvania, agreed that the gift of tuition can be far more precious than presents like toys that are quickly outgrown or discarded.

"The kids may not appreciate it at the time of the contribution, but if they come out of college debt-free, they will likely feel very grateful," she said. "When my husband and I sent our kids off to college, we agreed to cover the first four years, and after that, it was on them. They completed their degrees in four years and are free from college debt."

Kevin Estes, founder and financial planner at Scaled Finance in Bellevue, Washington, said he and his wife match gifts to their daughter's 529 plan.

"Several family members have contributed, supercharging her account balance," he said.

Carla Adams, founder and financial advisor at Ametrine Wealth in Lake Orion, Michigan, said given the current cost of college and the trend of tuition inflation, starting to save for college sooner rather than later is key. Funding a plan early gives the account maximum time to accumulate and grow. Ideally, clients should open and begin funding an educational savings account in the child's first year of life, she said.

"Encouraging friends and family members to contribute to the 529 account in lieu of or in addition to birthday and holiday gifts for the kids can help the account grow faster," she said. "It's not unusual for grandparents to want to open their own 529 plan accounts for grandchildren to help save for college, which is great. Coordinating with the grandparents' funding plan is important so that we can adjust the parents' funding plan accordingly, especially if the grandparents are planning to contribute substantial amounts of money."

When it comes to educational savings plans, start as early as possible

JJ Feldman, co-head of wealth management at Helium Advisors in Scottsdale, Arizona, said parents can technically start at 529 in their name before they have a baby, and then transfer it to the baby after they are born.

"Starting as soon as possible is key," he said. "The longer the money is invested and can compound, the greater the child will have for school. ... The longer the runway the better."

Davin Carey, regional vice president and financial planning consultant at Avantax Wealth Management in Los Angeles, said there is no time to start saving like the present.

"We have had some to-be parents start 529 accounts owned by a parent, with the parent as beneficiary until bundle-of-joy becomes a Social Security card-carrying member of society, and then they update the child as the beneficiary," said Carey.

Many families start early, but that's not always the case. Eddy Jurgielewicz, partner and financial planner at Upbeat Wealth in New Orleans, said "Everyone's situation and desires are unique, so the 'right' starting point is likely different for most families."

Take advantage of the 'magic' of compound interest

Parents — and any other relatives, for that matter — should start saving for a child's college education as early as possible, said Andrew Van Alstyne, wealth manager at Fiduciary Financial Advisors in Waxhaw, North Carolina.

"Compounding interest is truly magical, especially over periods greater than 10 years," he said. "If you're in a situation where you can afford it, an early lump sum is the optimal method, but if not, try to front-load as much as you can and contribute the rest consistently, even up to the college years if needed."

Stephanie Loeffel, founder and lead financial planner at Ascend Financial in Essex, Massachusetts, said front-loading contributions as early as possible gives assets time to grow and weather market volatility. If parents are working on building their resources for saving and splitting savings among multiple children, she would suggest weighting the savings amounts proportionally to the children's ages.

"Saving more for the oldest allows for any excess to be passed down to the younger beneficiaries, and the youngest has a longer time for the smaller contributions to grow," she said. "Back to school is a great time to reassess your savings goals and remind you to ratchet up your annual contributions each year."

Garrett Harper, a financial planner with Harper Financial Strategies in Lawrence, Kansas, said how much to save, allocations and periods are all dependent on expected future expenses.

"Typically, if a family is set on their child going to college, then the sooner the savings can start into the 529 account the better long-term growth opportunity," he said. "With the new option to move money from a 529 to a Roth account in the same child's name, there are few reasons to not go ahead and start saving toward education."

How much to save?

John R. Power, a CFP with Power Plans in Walpole, Massachusetts, said he generally recommends clients save enough to fund a "full ride" for their children at their flagship state university.

"If the kids qualify for a better option, there might be scholarship money available and some other resources," he said. "At least it will keep the college debt load within boundaries and frame college choices. If the parents are in a position to pay off approximately half, the kids can navigate the rest, at least as starters."

Adams said her firm attempts to help clients determine their overall goals first.

"Are they, for example, hoping to pay 100% of tuition for a private college? Or perhaps 50% tuition for an in-state school?" she said. "I like to get my clients thinking about what the end goal is so that we can create a path to get there, rather than just aimlessly saving random amounts of money."

Once that's established, they can then determine the future cost and devise a plan to find the account accordingly.

"The plan should be revisited every few years to make sure we remain on track, and also to check in with the client to see if the goal is still the same or if we need to amend the goal and change the funding plan," she said.

There is no right answer for every family, but clients must approach the funding strategy as a team, said Van Alstyne.

"Once you establish the philosophical goal, research some potential schools you feel may best serve the child's needs," he said. "What is the current tuition at these schools, how frequently has tuition increased and by what amount? Using these tuition numbers, we can back our way into a reasonable expectation of what we'll need to save in today's dollars to achieve your family's college funding goals."

Cassick said clients shouldn't forget about using their extra working income to help with education costs while the child is in college.

"Oftentimes, we come across parents worried that they need to have every dollar saved for their child's college tuition before college starts," he said. "It is important to remember that while your child is in college, these may be your highest earning years of employment, making your future income a powerful tool in covering the cost."

Help clients prioritize between debt, retirement and education expenditures

Lindsey Young, founder of Quiet Wealth in Baltimore, said in situations where clients must choose between paying down debt, saving for retirement and saving for children's education expenses, many advisors believe that saving for college costs is the lowest priority.

"This is quite often a hard idea for parents to accept, as they understandably want to do everything to support their children," said Young. "But from a planning standpoint, it's usually better for the parents to put themselves in a strong financial position with high retirement savings and low debt, which may enable the parents to support paying off the children's student loans following graduation."

Ahmed said if the client's retirement savings are inadequate, those need to be

addressed first. And if they have their own student loans, it would be "reckless to not pay those off first."

"They are, after all, costing you money," he said.

Helping children pay for college can be a wonderful gesture, but if it comes at the expense of parents' other financial goals, it can backfire, said Kaynoff.

"It may put pressure on your kids later in life to support you financially during retirement," he said.

Walsh said he did not believe a parent should prioritize saving for their child's schooling if they are still paying off their own loans.

"By getting themselves out of debt first, they will free up more cash flow to be able to assist the child," he said.

Damsky agreed that parents should pay off their own student loans before worrying about saving for their kids' college costs.

"What if you continue to rack up student loan debt because you choose to save in a 529 for your kid, but your kid doesn't end up going to college?" he said. "Take care of yourself first, because a 529 account for your kid can be a useless luxury."

Power said parents don't always have to feel responsible for their children's educational costs, especially if it would worsen their own financial situation.

"I strongly oppose parents going into debt to pay for the kid's dream school," he said. "Kids seldom know what they want or need. Parents need to be level-headed players. The glam of the campus looks different when the kid is going to pay for it."